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SPECIAL REPORT

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The Reagan Budget: 1984-1988

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Scrutiny of the 1984 budget suggests strongly that the problem of bringing Federal fiscal affairs under control has been vastly underestimated in the past, not only by the Reagan Administration, but by fiscal economists at large. On the outlays side, two factors seem dominant. As the budget correctly points out, the United States has for many years lagged behind most major industrial nations in its social insurance programs. Only now, in their catching up and maturation stage, is the impact of these programs and their powerful growth momentum being fully experienced. There is also no question that what might have been a normal buildup in national defense needs was allowed to fall far behind during the 1970s.

The Administration's efforts to control expenditure growth seem heroic in some respects. After Congress approved substantial amounts of the President's recommended cuts in the 1982 and 1983 budgets, the 1984 budget is proposing further reductions from current policy projections, totaling $348 billion through 1988. Certainly not all of the proposals will be approved by Congress. Even if they were, the share of government outlays in the economy would grow about as rapidly in the 1980s as it did in the 1970s.

Two years ago the Administration predicted—now admittedly with excessive optimism—that by fiscal 1984 outlays would be brought down to 19.3% of Gross National Product (GNP). Outlays for the 1980-1988 period, as proposed in the 1984 budget, would climb by 3.1% a year when adjusted for general inflation (consumer price index), only fractionally less than the 3.3% rise on a similar basis that occurred from 1970 to 1980. Again assuming all the proposals are approved, and that the Administration's economic assumptions are sufficiently accurate, projected outlays by 1988 would remain at 23.2% of GNP, down by just two percentage points from the peacetime record of 25.2% estimated for 1983 and well above the share claimed during the 1970s generally.

Similarly, the revenue outlook provides little grounds for optimism in reducing the size of the government sector relative to the economy as a whole. Under the Administration's proposals, including the standby taxes, budget receipts, adjusted for general inflation, would rise by an annual average of 3.0% from 1980 to 1988, higher than the 2.4% a year growth from 1970 to 1980. As a consequence, Federal budget receipts would claim a 20.6% share of GNP in 1988, higher than in any year of the 1970s and above their 20.1% share in 1980.

None of this is to gainsay the obvious fact that, absent policy initiatives of the sort the Reagan Administration has put forth, both receipts and outlays would claim an even more substantial share of the economy in the 1980s than is projected in the new budget.

For those concerned about the high claims of the government sector on the economy, there seems to be but one ray of hope, apart from further massive spending reductions, a course not now viewed as politically realistic: better performance of the overall economy than the Administration and many others now forecast for the 1980s. The Administration says that real economic growth would have to be about 5.1% annually (1.33% higher than its current estimate of 3.8%) in order to achieve "full employment" and balance the budget by 1988, even if Congress approves the President's package of "sweeping" policy changes.

Behind these best-case projections are some major unanswered questions. Technical experts disagree on what the productive capacity of the nation is or will be, on what levels of employment and other resource utilization will produce "full" or "high" employment, and on how these and other factors may combine to reduce or eliminate the so-called structural deficits. The Administration's projections of the economy's potential and of the consequent budget levels during the 1980s, while perhaps realistic, are not encouraging. They are, however, "educated guesses," as valid as anyone else's reading of the fiscal tea leaves.

FOUR MAJOR THEMES

In his budget message on January 31, President Ronald W. Reagan reiterated the four themes emphasized in his two previous budgets: the Administration's desire to limit tax burdens, reduce the growth of overall Federal spending, diminish Federal regulatory burdens, and support a monetary policy that would bring inflation under control. While reaffirming these aims, the President's message on the 1984 budget reflected poignant concern over a somewhat different aspect of budget policy: the large and continuously rising deficits that are foreseen in the 1980s in the absence of major policy changes.

For fiscal year 1984, the budget proposes outlays of $848.5 billion, a nominal increase of $43.3 billion or 5.3% over the currently estimated $805.2 billion in 1983. Receipts are put at $659.7 billion in 1984, an increase of $62.2 billion or 10.4% from the $597.5 billion collected in the current fiscal year. The budget deficit would be $188.8 billion in 1984, down by $18.9 billion from the $207.7 billion now estimated for 1983.

The indicated deficits this year and next would raise gross Federal debt from $1.147 trillion at the end of fiscal 1982 to $1.606 trillion by September 30, 1984, or by 40%. To finance the budget deficit and the off-budget deficit (estimated at $14 billion in 1984), the Treasury expects to borrow from the public $215 billion in 1983 and $203 billion in 1984. (Borrowing in 1982 came to just under $135 billion.) According to the budget, the proposed deficits will absorb 135% of net private savings in 1983 and 101% in 1984.

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In presenting the 1984 budget, the Administration also proposed significant changes in the 1983 budget from the amounts shown in its mid-session review last July 30. Outlays in 1983 would be $43.7 billion higher than estimated at that time, revenues $49.0 billion lower, and the deficit $92.7 billion higher. The revisions reflect a change in the government's economic forecast, re-estimates of spending, actions of the 97th Congress, supplemental requests, and rescission proposals.

DEPARTURES FROM TRADITIONAL BUDGETS

The emphasis in the 1984 budget differs in several ways from what has come to be expected when a new budget is put forth. In the 1984 budget, the Administration:

- ☐ focuses more intently on changes over the long run, 1984-1988, than on the immediately forthcoming fiscal year;
- ☐ emphasizes the comparison of recommended changes against "current services" or "current policy" baselines more strongly than changes over time; the baselines reflect what would happen to spending, revenue, and deficits if there were no change in current law, generally including adjustments for inflation;
- ☐ offers a candid discussion of economic assumptions and their effects on the budget;
- ☐ accepts blame for its own previous forecasting errors and accuses governments over the past ten years of presenting overly optimistic and misleading forecasts that have "undermined public confidence in the Government's ability to administer and control . . . its responsibilities";
- ☐ "apologizes," in a sense, for the failure of its two previous budgets to reach the desired goals and explains why this happened;
- ☐ defends its own economic projections in the 1984 budget as realistic and prudent, and not—as some critics charge—either overly pessimistic or excessively optimistic;
- ☐ presents a grim outlook for outlays and receipts under which the budget deficit would rise without interruption, reaching $315 billion by 1988 absent policy changes;
- ☐ attributes a rising share of budgetary imbalance to "structural deficits"—those that would occur even if the economy were operating at or near full capacity;
- ☐ proposes what the President referred to as "a sweeping set of fiscal policy changes designed to reduce substantially the mounting Federal deficits that threaten the renewal of economic growth."

ECONOMIC ASSUMPTIONS

The Administration's underlying economic assumptions represent a sharp turn-around from what proved to be an excessively optimistic outlook presented in the two previous budgets. For the calendar year 1983 as a whole, the assumption is that real GNP will grow only 1.4% over the year 1982. For the 1983-1988 period, real GNP growth is projected to average 3.8% annually. Price increases are seen as falling gradually, averaging 4.8% a year over the six years. The unemployment rate and interest rates are depicted as declining throughout the period.

The real growth assumption of the Administration is defended against critics who argue that it is too high or too low. Reviewing the pros and cons, the budget concludes, ". . . it seems reasonable to assert that the momentum of a decade-long trend of economic weakness and stagnation argues against a record-breaking rate of recovery of 5% or more, represented by the optimistic case. However, a number of significant economic policy changes suggest that real growth in the United States during the next several years will rise above the slow growth trend of the 1970s and regain its typical postwar six-year recovery rate of 4%, rather than the pessimistic 3% growth case."

STRUCTURAL DEFICITS

The "structural deficit" represents the difference between budget receipts and outlays under "high" employment. The Administration defines high employment at a level of about 6¼% unemployment. The remainder of the deficit—that resulting from lower receipts and higher outlays (unemployment benefits, food stamps, etc.) in a weak economy—is labeled "cyclical." According to the Administration's estimates, based on current services, nearly three-fourths of the projected 1984 deficit and 97% of that remaining in 1988 are structural. Moreover, the structural deficit, it is claimed, would double in size between 1983 and 1988 without major policy changes.

The Administration attributes the structural deficits to "the effects of cumulative economic trends and fiscal policy decisions stretching over a decade." The budget describes the "ballooning" of the social insurance (called "social contract") programs and other entitlements, pointing out that between 1970 and 1981, they rose from 6.0% to 10.1% of GNP. At the same time defense spending was allowed to decline from 8.3% to 5.5% of GNP, while most other components of the budget increased their GNP share somewhat. Admitting its failure to solve this problem in the past two years, the Administration faults the unanticipated economic setback that led to a lower long-term GNP path and higher interest outlays than originally planned, and says that the policy changes made have been more successful in reducing the tax claim on GNP and less successful in cutting the non-defense spending claim than initially projected.

It seems worth noting that the structural deficits now foreseen by government and private fiscal experts represent the reverse of the "fiscal dividend" of the 1960s. At that time it was claimed that under existing laws budget receipts would tend to rise faster than outlays and to exceed outlays at full employment. The resulting "fiscal dividend," or what in today's terminology might be referred to as a "structural surplus," it was held, would choke off economic expansion and create various other problems. (Thanks to government policies that managed to claim them in advance, the fiscal dividends or structural surpluses of the 1960s remained illusory.)

BUDGET RECOMMENDATIONS TO CLOSE THE STRUCTURAL DEFICIT

To reduce the projected deficits, the President put forth a four-part plan that included a spending freeze on some programs, measures to control the growth of the so-called "uncontrollable" spending programs, some savings in the defense budget, and a standby tax increase to become effective in fiscal 1986 under certain conditions. The budget describes each of the recommendations in some detail. The scope of this report precludes full discussion, but some highlights can be cited.

1. **Spending and Cost-of-Living Allowances (COLA) Freeze.** Savings from these proposals are estimated at $19 billion in 1984 and $164 billion in 1984-1988. In 1984, there would be no pay increases for Federal employees or pension increases for former employees. There would be a six-month deferral of COLA adjustments for recipients of social security, supplemental security income, railroad retirement, veterans' compensation, food stamps, and child nutrition. In addition, aggregate discretionary spending would be frozen at the 1983 level, with selective increases or reductions in the components, according to the Administration's priorities. The plan also includes a farm price support freeze and reform plan.

2. **Structural reforms of "uncontrollable" programs.** The changes would affect social security, Federal employee retirement, health care, and means-tested benefit programs. Estimated savings are $19 billion in 1984 and $228 billion over the next five years.

The budget recommendations embody the proposals agreed upon by the bipartisan National Commission on Social Security and endorsed by congressional leaders and the President. Briefly, the plan includes: a six-month COLA freeze; accelerating scheduled payroll tax increases in 1984 and 1988; inclusion of 50% of social security benefits in the income tax base for taxpayers above specified income levels; extension of coverage to new Federal employees and all uncovered nonprofit employees; prohibition on future withdrawals of state and local governments; increasing the self-employment tax rate and allowing deductibility of half the payment; and requiring a lump-sum payment of Federal obligations for past military service credits.

Extensive revisions would be made in the Federal civilian retirement system in an effort to cut long-run costs from a current 35% of payroll to 22% of payroll. Employee contributions would be raised from 7% to 11% of salary; Postal Service and District of Columbia would be required to fund their fair share of costs for their employees; and a number of annuity reforms would be implemented.

The health care proposals would reduce costs of medicare and medicaid, primarily through a reform of hospital reimbursement to eliminate cost-plus payments; and would revise the health insurance coverage provided by employers, putting a $175-a-month cap on tax-free exclusion of employer health benefit plans.

3. **National Defense.** "Maintenance of the defense buildup" would be achieved, while realizing savings from lower inflation, the 1984 pay freeze, and other "program economies," for current services reductions totaling $55 billion in 1984-1988.

4. **Standby tax plan.** In addition to revenue initiatives under social security, Federal retirement systems, and health insurance, the President proposed a contingency tax plan, or standby tax, to become effective on October 1, 1985. Labeled a "deficit insurance policy," the taxes would consist of a 5% surcharge on individual and corporate income tax liability and an excise tax on domestic and imported oil that would raise revenues of about $5 a barrel. The plan would go into effect only if three conditions are met: Congress adopts the Administration's deficit reduction measures; the unified budget deficit for fiscal 1986 is forecasted by the Administration on July 1, 1985 to be above 2.5% of GNP; and on July 1, 1985 the economy is growing. The taxes would raise an estimated $46.0 billion in 1986 and would remain in effect for up to 36 months.

The Administration apparently views the standby tax proposal as a way of forestalling efforts to repeal the third year of the 1981 tax cuts and tax indexing, scheduled to begin in 1985. In presenting the plan, the President said that the Administration would continue to study ways to simplify the tax code. "At the same time, however," he said, "I will oppose any efforts to undo the basic tax reform we have already enacted—including the 10% tax break coming to taxpayers this July and the tax indexing. . . ."

Table 1 compares the budget recommendations with current services baselines for fiscal years 1984 through 1988. By reductions in outlays of $348 billion and increases in receipts of $234 billion, the deficit would be reduced by amounts beginning at $46 billion in fiscal 1984, rising to $190 billion by 1988. As a share of GNP, budget recommendations call for outlays declining to 23.2% of GNP by 1988, instead of 25.4% under current services. Receipts would rise to 20.6%, instead of 18.9%, of GNP under current services, and the deficit would drop from 6.4% of GNP under the current services estimates to 2.6%.

Table 1

Comparison of Budget Recommendations with Current Services Baseline

(In billions)

	1984	1985	1986	1987	1988
Outlays					
Current services	$ 897	$ 981	$1,065	$1,157	$1,242
Proposed savings	− 35	− 52	− 66	− 89	− 106
Proposed outlays	863	929	999	1,068	1,136
Receipts					
Current services	649	713	781	849	927
Proposed changes*	11	11	61	67	84
Proposed receipts	660	724	842	916	1,010
Deficit					
Current services	− 249	− 267	− 284	− 308	− 315
Proposed reductions	46	63	127	156	190
Total deficit	− 203	− 205	− 157	− 152	− 126
On-budget deficit	− 189	− 194	− 148	− 142	− 117

*Includes contingency tax plan.
Source: Office of Management and Budget.

OTHER SPENDING HIGHLIGHTS

For 1984, the proposed 5.4% increase in outlays is smaller than any yearly rise that has occurred in Federal spending since 1971. It is less than half the 11.8% average annual rate of increase in 1980-1983 and far below the 17.5% jump in

fiscal 1980. With adjustment for inflation, the 1984 proposal reflects a zero growth rate. If this materializes, 1984 would be the first year since 1970 in which there was no real increase in Federal outlays.

As was to be expected, proposed spending for national defense would increase substantially in 1984–by 14.2% in nominal dollars and 10.0% in constant dollars; in 1980-1983 the average annual nominal rise was 16.5%. Net interest would also rise rapidly, by 16.1% in 1984 as compared to 12.5% on average in 1980-1983. In the aggregate, non-interest, non-defense outlays in 1984 would decline by 2.2% in nominal dollars and 5.3% in real terms, similar to the trend in the last three years.

The "freeze" in overall spending in 1984 notwithstanding, there would be a varied pattern of ups and downs in different functional categories under the budget plan. Table 2 presents, for 14 major categories, the proposed 1984 changes compared with 1983 outlays as well as with estimated current services levels in 1984. Also shown are the average annual proposed changes over the next five years. For all functions the average yearly change for the period is 7% in nominal dollars.

Spending categories for which the President proposes major increases in 1984 over 1983, in addition to national defense and interest, include: international affairs, transportation, health, social security, and veterans' benefits. Major reductions are proposed for energy, natural resources/environment, commerce/housing credit, education/employment/social services, and income security (except social security).

Federal grants-in-aid to state and local governments are projected as rising by 3.0% a year in nominal dollars from 1983 to 1986. The Administration has scaled back the controversial "New Federalism" proposal it announced in 1982, and promises to offer a revised proposal in early 1983.

OTHER REVENUE HIGHLIGHTS

In the current fiscal year, budget receipts are expected to decline from 1982 by about $20 billion, or 3%, as a result of the 1981 tax cuts and the recession. In 1984, receipts are projected to rise by $60 billion, 10%, almost entirely as a result of economic improvement; $11 billion of the increase reflects revenue initiatives in the reform plan. A similar rise of about 10% is projected for 1985. However, if the standby tax package were approved, as recommended by the Administration, the rate of increase would move up to almost 12% in the years 1985-1988. Over the five years, 1983-1988, receipts would grow about 69%, or just over 11% annually.

Table 3
Proposed Budget Receipts by Source
(In billions)

Source	1982 actual	Estimate 1983	1984	1985	1986
Individual income taxes	$297.7	$285.2	$295.6	$317.9	$358.6
Corporate income taxes	49.2	35.3	51.8	60.5	74.0
Social insurance taxes and contributions	201.5	210.3	242.9	275.5	304.9
Excise taxes	36.3	37.3	40.4	40.8	74.8
Estate and gift taxes	8.0	6.1	5.9	5.6	5.0
Customs duties	8.9	8.8	9.1	9.4	9.7
Miscellaneous receipts	16.2	14.5	14.0	14.5	14.8
Total, budget receipts	617.8	597.5	659.7	724.3	841.9
Exhibit: receipts under existing legislation	617.8	597.5	648.5	713.1	780.6

Source: Office of Management and Budget.

Table 3 depicts budget receipts by type of tax as projected through 1986. The largest percentage gains are shown in excise taxes (including the standby oil tax) of 106%; social insurance taxes, 51%; corporate income taxes, 50%; and individual income taxes, 20%.

The proposed policy changes account for $61.3 billion of the indicated rise in receipts in 1986. The major portions of the increase would come from the contingency tax plan ($46 billion); changes in social security payroll taxes ($8.9 billion); taxation of employer paid health insurance premiums ($6.0 billion); and higher Federal employee contributions to their pension system ($2.1 billion). These increases would be slightly offset by new tax incentives proposed in the 1984 budget that would provide a total of $1.9 billion in tax reductions. Included are enterprise zone tax incentives (which would cost $800 million in lost revenues in 1986); tuition tax credits ($800 million); educational savings accounts for higher education ($200 million); a jobs tax credit ($100 million); and others of lesser cost.

Table 2
Proposed Changes in Budget Outlays by Function
(Dollar amounts in billions)

Function	Amount of change 1983-1984	Percent change in 1984 compared to 1983 outlays	Percent change in 1984 compared to Current services	Average annual percent change 1983-1988
Major increases in 1984				
National defense	$30.5	14	−3	12
International affairs	1.3	11	1	1
Transportation	3.2	15	−4	5
Health	8.2	10	−2	10
Social security	9.9	6	−2	7
Veterans' benefits	1.3	5	−2	3
Net interest	14.3	16	−2	9
Major decreases in 1984				
Energy	$−1.2	−27	−20	−7
Natural resources, environment	−2.3	−19	−12	−8
Agriculture	−9.0	−43	−21	−14
Commerce/housing credit	−1.5	−79	−81	N/C
Education/employment/social services	−1.4	−5	−7	−1
Income security (excluding social security)	−10.0	−9	−3	−1
All other (net)				
Net total, other functions	$−0.5	−4	−17	3
Total, all functions	$43.3	5	−4	7

N/C = Not calculable.
Source: Senate Budget Committee.

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TAX FOUNDATION'S MONTHLY VOL. 27, NO. 3 APRIL 1983

TAX·FEATURES

Tax Freedom Day Falls on May 2; Taxes Take 2 Hrs.-40 Mins. of Workday

The average U.S. worker spends 2 hours and 40 minutes of each 8-hour workday earning money for Federal, state, and local taxes, Tax Foundation economists say. Federal taxes claim the lion's share—1 hour and 44 minutes—while state and local governments preempt 56 minutes' worth of daily earnings.

On the plus side, wage-earners in 1983 will have to devote one minute less of their day's worktime to earning tax money. The entire drop occurs on the Federal side of the tax ledger, according to Foundation analysts. They tally the Federal tax bite in an 8-hour day at 3 minutes less than it was in 1982, due largely to the impact of ERTA (the Economic Recovery Tax Act of 1981).

By contrast, states and localities will increase by 2 minutes their inroads into a worker's daily earnings. The Foundation reported recently that states put $4 billion in new taxes on the books in 1982 and are considering a record $12 billion worth of tax hikes for 1983.

Other large claims on the worker's 8-hour earnings include housing and household operations (1 hour, 34 minutes) and food and beverages (1 hour, 7 minutes).

The table below gives details on how much of the U.S. worker's 8-hour day in 1983 is devoted to earning enough money to meet major expenses. (See also box on page 4.)

Tax Bite in the 8-Hour Day 1983

Item	Hours and minutes
Tax, total	2 hours 40 minutes
Federal	1 hour 44 minutes
State and local	56 minutes
Housing and household operation	1 hour 34 minutes
Food and beverages	1 hour 7 minutes
Transportation	43 minutes
Medical care	35 minutes
Clothing	22 minutes
Recreation	21 minutes
All other[a]	38 minutes
TOTAL	8 hours

[a]Includes consumer expenditures for items such as personal business, and private education; and savings.
Source: Tax Foundation estimates as of April 8, 1983.

Tax Freedom Day will fall on May 2 this year, according to Tax Foundation economists. This is the second consecutive year in which the overall trend for this date to fall later in the calendar has been reversed, they report. This means that, as of May 2, the average worker would finish paying Federal, state, and local taxes if every cent earned from January 1 went to satisfy some level of tax obligation.

The contributing factors moving Tax Freedom Day earlier this year represent a mixed bag of good news and bad news, Foundation analysts say. On the plus side, ERTA, the Economic Recovery Tax Act of 1981, left more money in the pockets of American taxpayers. On the minus side, TEFRA, the Tax Equity and Fiscal Responsibility Act of 1982, imposed $98 billion in revenue hikes that prevented Tax Freedom Day from

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Moderate Earner Pays $6,323 in Taxes; Owes $2,269 More for Deficit Spending

Uncle Sam will spend $805.2 billion in fiscal year 1983. For a moderate-income family—one worker earning $25,000 solely from wages with a spouse and two dependent children—this will mean a tax bite of $6,323, according to Tax Foundation economists.

As spending edges gradually but inevitably toward the trillion-dollar mark, the place of the ordinary taxpayer in the scheme of things may be difficult to visualize. To clarify things, analysts at the Foundation choose the $25,000-a-year family and break down Federal spending in terms of its tax bill.

The most expensive item is labeled "income security." This includes social security and Federal employee retirement and disability, unemployment compensation, housing assistance, food and nutrition assistance, and other programs. The Federal budget lists $282.5 billion in total for these items. For the $25,000 earner described above, the cost is $2,163. That is, for each $1.00 he pays in taxes, Uncle Sam pays out 34 cents for income security to someone.

National defense costs $214.8 billion, or 26 cents out of each tax dollar. For the taxpayer described here, this amounts to $1,645. Interest on the public debt takes third place at $681 for this worker, almost 11 cents per dollar of taxes, followed closely by health expenditures, at $631, or almost 10 cents per dollar of taxes.

These four big programs account for more than 80 percent of all Federal spending. The remainder goes, in varying amounts, to the functions shown in the accompanying table.

The money to support these programs comes from tax dollars, nontax receipts, and government borrowing. Most of the tax money comes from the individual income tax. For this $25,000-a-year family, the income tax siphons off $2,445 from annual earnings. Social security taxes divert another $1,675 into Federal coffers.

Direct levies do not tell the whole story, though, according to Tax Foundation economists. A number of indirect taxes—employer's share of social security taxes, corporate income taxes, excise taxes on liquor, gasoline, tobacco, and air travel—claim another $2,203 of that paycheck.

Altogether, Federal taxes claim over 25 percent of this family's annual income. But that's not the whole story.

In addition to paying a big slice of current earnings for taxes, the family must assume a share of the $207.8 billion fiscal 1983 deficit. For the family described here, that burden is an additional $2,269. All told, current taxes and borrowing add up to over 34 percent of this moderate-income family's earnings.

How the Federal Government Will Spend A Worker's Tax Dollars in Fiscal 1983[a]

Function	Worker's share: Amount	Worker's share: Percent of total	Total amount (millions)
Income security	$2,163	34.21	$282,472
National defense	1,645	26.01	214,769
Interest	681	10.77	88,936
Health	631	9.98	82,362
Education, training, employment, and social services	204	3.23	26,676
Veterans' benefits	187	2.96	24,411
Transportation	168	2.65	21,876
Agriculture	161	2.55	21,075
Natural resources and environment	93	1.46	12,087
International affairs	91	1.45	11,939
General science, space, and technology	59	.94	7,759
Community and regional development	57	.89	7,373
General purpose fiscal assistance	49	.77	6,382
General government	44	.70	5,794
Administration of justice	40	.64	5,273
Energy	35	.55	4,506
Commerce and housing credit	15	.23	1,928
Total	$6,323	100.00	$805,202[b]

[a]In this example, the worker is the sole source of support for a spouse and two dependent children, and earns $25,000 per year.

[b]After deducting $20,414 million for undistributed offsetting receipts not classified by function.

Source: Office of Management and Budget, and Tax Foundation computations, based on official budget estimates presented January 31, 1983.

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"Consumption Tax: An Idea Whose Time Is Coming," *Special Report*, April, 28 pp., $5.00.

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Odds and Ends—

U.S. Pensions in Bad Shape; Civil Service Errors Are Costly; Paying for D.C.'s Street Lights

Now that Congress and the Administration have straightened out the social security system, perhaps they can take on the Civil Service Retirement System. According to the Office of Personnel Management (OPM), escalating costs have placed the Federal system in worse shape than social security.

"Few Americans realize that the true debt of the Civil Service Retirement System (CSRS) now totals one-half trillion dollars ($500 billion)!" reports OPM Director Donald J. Devine. "On a per person basis, the unfunded liability of CSRS is much greater than that of the Social Security system."

Devine reports that, while outlays for social security were growing 1,209 percent between 1960 and 1981, Federal retirement spending jumped 1,891 percent. On top of that, Federal workers have increased their contributions to the system by only 427 percent, compared to a 2,351 percent hike in contributions by their employer, Uncle Sam. "Clearly, CSRS needs reform even more than does the Social Security system," Devine says.

Despite sharply rising contributions to the system, the unfunded liability of the CSRS has continued to grow. The problem stems from a combination of "overly-generous retirement benefits" and "inadequate employee contributions," according to the Reagan Administration. The 1984 budget recommends comprehensive reforms, including increases in employee contributions and other changes to restore the financial solvency of the fund and bring costs in line with those of private pension systems generally.

Civil Service Errors

To err may be human, as the Bard said. It can also be expensive.

Errors in the Federal government's classification system for civil service positions and pay are costing taxpayers nearly $682 million a year, according to a new study by the OPM. Based on a random audit of Federal white-collar jobs, the study reveals patterns of overgrading, undergrading, and occupational code and title errors among such workers. The results:

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"The true debt of the Civil Service Retirement System now totals one-half trillion dollars."

THE FRONT BURNER

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Why Can't We Cut Spending?"

Listen to these words of Thomas Jefferson:

I place economy among the first and most important virtues, and public debt as the greatest of dangers. To preserve our independence, we must not let our rulers load us with perpetual debt. We must make our choice between economy and liberty, or profusion and servitude. If we can prevent the Government from wasting the labors of the people under the pretense of caring for them, they will be happy.

Those words were the favorite Jeffersonian sentiment of Dallas L. Hostetler, the Florida businessman who first conceived the idea of Tax Freedom Day in 1948. As we celebrate Tax Freedom Day 1983—merely one day earlier than last year, despite all kinds of rhetoric about austerity budgets and spending restraints—I find myself wondering how we can prevent the government from doing us in under the pretense of caring for us.

I am by nature an optimistic man, a believer in positive thinking, and an advocate of constructive action. I am also growing a little impatient.

Candidates and officeholders come and go. The promises of something for nothing, of give-aways which will allegedly cost the recipient nothing, remain with us.

Jefferson foresaw this. He and the other framers of the Constitution knew that a representative form of government would tempt public officials to secure and increase their hold on power by using public funds to buy votes. That may be crassly put; it is, however, not inaccurate.

What the nation needs, as we lurch toward the 21st century weighed down by the shackles of a $1.3 trillion national debt and projected $200 billion 1983 deficit, is a national commitment to make this country solvent again.

We need to challenge the opinings of economists and legislators who tell us that there is nothing wrong, per se, with deficits. And we need to do so with solid, objective data. We need to unmask the euphemisms and weasel words. "Not subject to change under current law" means just that. If the legislators can muster the gumption, they can change the law. "Structural deficits" are, nonetheless, deficits. Spending cuts or tax increases can erase them. "Revenue enhancements" are merely the fox of tax increases dressed in the lamb's clothing of vague language. "Tax expenditures" is a philosophical slight of hand by which the government asserts ownership of everything we earn, except for that portion which it chooses to leave in our hands through tax deductions and exclusions. The "national debt" is merely living beyond our means today in the expectation that those who come after us will pick up the tab; it is mortgaging the future to live as spendthrifts in the present.

I like to think that Lincoln was right, that you can't fool "all of the people all of the time." Some day—and I hope it's soon—the sleeping giant that is the American worker and taxpayer will awaken to what is being done to him in the name of "public interest." I look forward to being around to watch the fireworks.

"What the nation needs... is a national commitment to make this country solvent again."

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"Many states have legislated significantly higher taxes."

"Nearly 14.3 percent of the government's 1,312,000 full-time white-collar positions are overgraded."

Tax Bite in the 8-Hour Day
Selected Years, 1930-1983

Year	Hours and minutes: Total	Federal	State and local
1930	:57	:17	:40
1940	1:29	:45	:44
1950	2:02	1:30	:32
1960	2:22	1:40	:42
1970	2:34	1:40	:54
1975	2:35	1:38	:57
1980[a]	2:42	1:49	:53
1981[a]	2:47	1:54	:53
1982[a]	2:41	1:47	:54
1983[b]	2:40	1:44	:56

[a]Revised. [b]Forecast.

(TAX FREEDOM DAY, from page 1)

being even earlier. Also, many states have legislated significantly higher taxes.

Popularly described as the day the U.S. worker finishes paying taxes and starts working for himself, the idea was conceived by Dallas L. Hostetler, a Florida businessman, in 1948. He turned responsibility for the concept over to the Foundation upon his retirement in 1974. The table below shows selected dates for Tax Freedom Day since 1930.

Year	Tax Freedom Day
1930	February 14
1940	March 9
1950	April 4
1960	April 18
1970	April 28
1975	April 29
1980[a]	May 3
1981[a]	May 7
1982[a]	May 3
1983[b]	May 2

[a]Revised. [b]Forecast.

(U.S. PENSIONS, from page 3)

• Nearly 14.3 percent (188,000) of the government's 1,312,000 full-time white-collar positions are overgraded.

• About 1.5 percent (20,000) are undergraded.

• About 11.1 percent (146,000) have the wrong series. "If a position has the wrong series," the report explains, "it may be filled with an employee unable to do the work; that employee could be given the wrong training; and the employee might also be reassigned or promoted to another position the employee is unable to do."

• About 14.6 percent have the wrong title. This can also result in employees being placed in jobs for which they are not qualified, the report says.

On a more positive note, the OPM said that "the results of the study do not indicate that there have been overall changes in . . . the cost (constant dollars) of overgrading since our last report in 1978."

D.C.'s Light Bill

Budgetary balance has become a major headache for state and local officials during the economic downturn from which the nation is just beginning to emerge. Some officials have shown a good deal of ingenuity in avoiding red ink.

Mayor Marion Barry of Washington, D.C., has broken new ground in the area of fiscal creativity. His 1984 budget for the District will be balanced from the pockets of local utility customers, if the Mayor has his way. He proposes to shift the District's $12 million in street lighting costs to private customers of Potomac Electric Power Company (PEPCO), the local utility.

PEPCO has attacked the plan and is watching with jaundiced eye as the budget moves through the legislative pipeline. District officials support it as a way of avoiding spending reductions or tax hikes.

The D.C. City Council has let stand Barry's proposal and forwarded the 1983 fiscal plan to the U.S. House of Representatives. There the Subcommittee on the District of Columbia, chaired by Representative Julian C. Dixon (D-Ca.), will hold hearings, beginning on April 15.

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